

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 ABF-01 DODE-00

PA-04 USIA-15 PRS-01 SS-20 DRC-01 /155 W

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R 081430Z NOV 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1726

INFO AMCONSUL MILAN

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL NAPLES

C O N F I D E N T I A L ROME 12284

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY: AFTER RELATIVE CALM EARLY IN OCTOBER, MIDEAST WAR TRIGGERED HEAVILY ADVERSE EFFECTS ON ITALIAN EXCHANGE MARKET LATER IN THAT MONTH. BOI HAD TO INTERVENE SUBSTANTIALLY TO SUPPORT LIRA, WITH RESERVE LOSS ONLY PARTLY OFFSET BY PROCEEDS OF EUROMARKET BORROWING BY STATE RAILWAYS. CUMULATIVE BOP DEFICIT THROUGH OCT 15 WAS \$382 MILLION AFTER TAKING INTO ACCOUNT LARGE COMPENSATORY EUROMARKET BORROWINGS. BOI OFFICIAL EXPRESSED GRAVE
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DOUBTS ABOUT PROSPECTS FOR MONETARY REFORM, PARTICULARLY IN

LIGHT OF RECENT ARAB PETROLEUM DEVELOPMENTS, END SUMMARY.

2. BOI CENTRAL DIRECTOR RESPONSIBLE FOR EXCHANGE MARKET OPERATIONS (ERCOLANI) TOLD EMBOFFS NOV 7 THAT ITALIAN EXCHANGE MARKET HAD BEEN QUITE CALM EARLY IN OCTOBER UNTIL OUTBREAK OF MIDEAST WAR. AT THAT TIME, BANK WAS FORCED TO INTERVENE HEAVILY IN MARKET, APPARENTLY DUE TO LARGE INCREASE IN IMPORT PAYMENTS FOR PETROLEUM FOR STOCKPILING AND FOR ADVANCE PAYMENTS ON FUTURE OIL IMPORTS. (HE SAID THAT PART OF RECENT WEAKNESS OF LIRA HAD BEEN RESULT OF RUMOR FROM BEIRUT THAT ITALY MIGHT BE PUT ON ARABS' "BLACK LIST".) ONLY PART OF INTERVENTION LOSSES WERE OFFSET BY RECEIPT AT END-OCTOBER OF FIRST TRANCHE OF \$100 MILLION OF \$200 MILLION STATE RAILWAYS LOAN. FOLLOWING MIDEAST TRUCE MARKET CALMED DOWN SOMEWHAT, ALTHOUGH LIRA HAS WEAKENED IN LAST FEW DAYS AGAINST RESURGENT DOLLAR.

3. PROVISIONAL MONETARY MOVEMENTS DATA THROUGH OCT 15 SHOW SMALL OVERALL BALANCE OF PAYMENTS SURPLUS OF ABOUT \$21 MILLION IN FIRST HALF OF MONTH. HOWEVER, TOTAL NET OFFICIAL ASSETS FELL BY \$30 MILLION, WHILE COMMERCIAL BANKS IMPROVED THEIR NET FOREIGN POSITION BY \$51 MILLION. CUMULATIVE DATA THROUGH MID-OCTOBER SHOW OVERALL DEFICIT OF \$382 MILLION OF WHICH \$318 MILLION WAS FINANCED FROM NET OFFICIAL ASSETS AND \$64 MILLION FROM NET FOREIGN BORROWING BY COMMERCIAL BANKS. IN THIS TIME PERIOD, COMPENSATORY EURO-MARKET BORROWINGS BY ITALIAN STATE ENTITIES TOTALED \$3,132 MILLION. THUS, UNDERLYING DEFICIT EXCLUDING THESE BORROWINGS WOULD HAVE BEEN \$3,514 MILLION.

4. ERCOLANI WAS PESSIMISTIC ABOUT PROSPECTS FOR MONETARY REFORM IN FACE OF POSSIBILITY OF FUTURE IRRESPONSIBLE MANIPULATION OF FUNDS BY ARAB COUNTRIES. PRESENT OIL CRISIS HAS STRENGTHENED HIS SUPPORT FOR EVENTUAL ADOPTION OF SYSTEM OF FLOATING CURRENCY BLOCS, ONE WHICH WOULD CONSIST OF PETROLEUM STATES. ERCOLANI ALSO REPEATED HIS VIEW THAT EC SHOULD AGREE TO INTRA-COMMUNITY GOLD SETTLEMENTS SCHEME WHEREBY GOLD PRICE WOULD BE RELATED TO FREE MARKET PRICE. FOR EXAMPLE, IF ITALY'S OCT 15 GOLD RESERVES (STILL VALUED AT \$35 PER OUNCE) WERE VALUED AT \$95 PER OUNCE THEIR DOLLAR VALUE WOULD GO UP FROM \$2,887 MILLION TO \$7,835 MILLION. SUCH AN INCREASE IN RESERVES WOULD GO A LONG WAY TO RESOLVING ITALY'S PRESENT AND ANTICIPATED 1974 BALANCE OF PAYMENTS PROBLEM.
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5. DOLLAR CONTINUED TO STRENGTHEN AGAINST LIRE NOV 7, WITH DAILY AVERAGE COMMERCIAL RATE AT 583 LIRE PER DOLLAR AND DAILY AVERAGE FINANCIAL RATE AT 611 LIRE PER DOLLAR. THIS COMPARES WITH AVERAGE COMMERCIAL RATE OF 570 LIRE PER DOLLAR AND AVERAGE FINANCIAL RATE OF 599 LIRE PER DOLLAR IN PAST TWO AND ONE-HALF WEEKS. THREE-MONTH FORWARD RATE FOR FINANCIAL LIRA WAS 613 LIRE PER DOLLAR ON NOVEMBER 7. VOLPE

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